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University of Alberta
1-15 Business Building
Edmonton, Alberta T6G 2R6

SCI

INCOME TRUST

1998 Annual Report



SCI Income Trust
Annual General Meeting

Thursday, May 20, 1999

at 10:00 am

The Simmons Showroom

Suite 107, Toronto International Centre

6900 Airport Road, Mississauga, Ontario

SCI

INCOME TRUST

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REPORT TO UNITHOLDERS

It is with a great deal of pleasure that we report on the consolidated results for the first full year of SCI Income Trust and Simmons Canada Inc., the wholly-owned operating subsidiary of SCI Income Trust.



SIMMONS
Beautyrest

Revenue for the year ended December 31, 1998 was \$104,803,000, net income was \$9,714,000 with distributable cash flow of \$1.69 per unit. Exceeding \$100 million in revenue for the first time in the history of Simmons in Canada and distributing 25% more than our targeted \$1.20 per unit to unitholders, are achievements of which we are especially proud.

Quarterly distributions per trust unit made for 1998 were as follows:

- \$0.30 per unit on April 15, 1998 to unitholders of record on March 31, 1998
- \$0.30 per unit on July 15, 1998 to unitholders of record on June 30, 1998
- \$0.30 per unit on October 15, 1998 to unitholders of record on September 30, 1998
- \$0.30 per unit **Plus** an additional \$0.10 for a total of \$0.40 per unit on January 15, 1999 to unitholders of record on December 31, 1998.

In addition to these quarterly distributions, a special distribution of \$0.20 per unit has been declared payable on April 15, 1999 to unitholders of record on March 31, 1999, bringing the total cash distributions to \$1.50 per

unit based on 1998 operations. This added distribution reflects the intention of the Trust to distribute all available cash on hand at year end in excess of working capital requirements, in the form of a special year-end distribution to unitholders, payable on or about April 15, of the following year.

On March 4, 1999 the Trust announced that it will increase the first quarter distribution for 1999 to \$0.325 per unit, up from the \$0.30 per unit distributed for the first quarter of 1998.

We maintain our belief that one of the main reasons SCI Income Trust is attractive to investors is because it is not based on depleting resource assets as are many other income and royalty trusts. For 107 years Simmons Canada has demonstrated that it is a solid performer and we firmly believe our plans for 1999 and beyond will allow us to retain our position as the industry leader.



SIMMONS
BEAUTYSLEEP

Our highly successful and internationally-known Simmons brand name products, **Beautyrest**, **BackCare**, **Beautysleep** and **Hide-A-Bed** will continue to generate significant revenues for the company.

Simmons Canada is a major supplier to private label retailers such as Sears and Ikea. Simmons Canada also

manufactures and distributes the **OBUSFORME** line of mattresses and foundations and recently introduced a new line of **OBUSFORME** chairs with **OBUSFORME** back support designed into the seating, available in leather and fabric.

Simmons Canada is currently negotiating a licence agreement with **Englander** which would give Simmons the exclusive right to manufacture and distribute **Englander** mattresses and foundations in Canada. **Englander** is a U.S. mattress brand ranked 7th in the U.S. The addition of the **Englander** brand to our product offering will give Simmons Canada greater distribution opportunities and potential for increased volumes through its existing manufacturing facilities. The **Englander** products will be manufactured in Simmons' factories and will be sold to the retail trade through new, independent agents.

During 1998, Simmons Canada began exporting Simmons **Beautyrest** mattresses from the B.C. factory to



In order to keep up with the demands for **Beautyrest** and other pocket coil products we are installing additional equipment in our B.C. factory. This investment will benefit Simmons Canada in the near and long term, principally in the B.C. market, and will also assist us in meeting the needs of Simmons Asia.

We are pleased to be able to report that the very successful results for 1998 came from all areas of Simmons Canada's operations. Both our consumer product lines and our hospitality and institutional lines delivered about equal revenue increases over previous operating results.

The Simmons Mattress Gallery concept introduced in 1997 is gathering momentum.

Twenty locations were in operation at the end of 1998. We anticipate another twenty opening by the end of 1999 for a total of forty Simmons Mattress Galleries covering Canada from Newfoundland on the east coast to B.C.'s

Vancouver Island on the west. The Simmons Mattress Galleries are owned by independent retailers. The majority of them are installed within the four walls of an existing furniture store. The gallery allows our retailer to show a greater selection of Simmons mattresses and foundations covering popular price points and comfort selections right up to the ultimate Simmons **Beautyrest Crescendo** king size set retailing in the \$5,000 range.



Simmons Asia. We do not expect this to be a significant distribution channel for us, but these exports will add manufacturing volume to our factory. North American brand names are well recognized and sought after by Asian consumers. While Simmons Asia does manufacture its own line of Simmons mattresses and foundations, the Simmons Canada **Beautyrest** product expands the product offerings to their customers.

SCI

INCOME TRUST

Under the terms of participation, only Simmons' products are retailed in Simmons Mattress Galleries.

The Trust anticipates quarterly distributions of \$0.325 per unit for 1999, as declared for the first quarter of 1999 ended March 31. This new distribution level results from the growth experienced in 1998 but also reflects the company's expectation of more moderate growth for 1999.

It's been said before and I believe bears repeating:

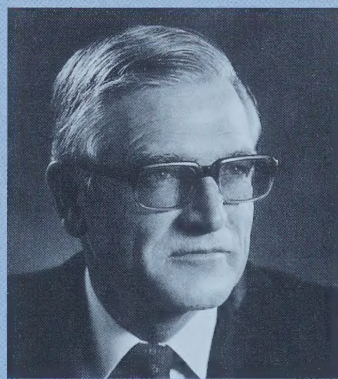
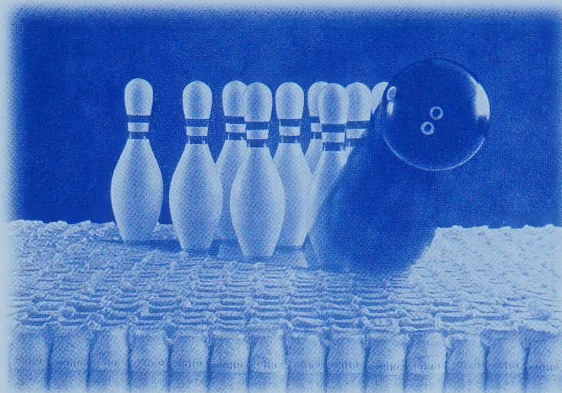
Simmons Canada has the finest team in the industry, a belief that is borne out by our outstanding performance in 1998 and by the consistent performance of our company over many years. Once again I thank our management and all our employees whose efforts are the reason for our success. I also thank our Board of Directors whose guidance and counsel contributed to the company's success in 1998.

Finally, I thank you, our unitholders, for the faith you have shown in Simmons Canada. I look forward to reporting our future achievements to you.

Pat Thody

Patrick S. Thody
President and Chief Executive Officer
Simmons Canada Inc.

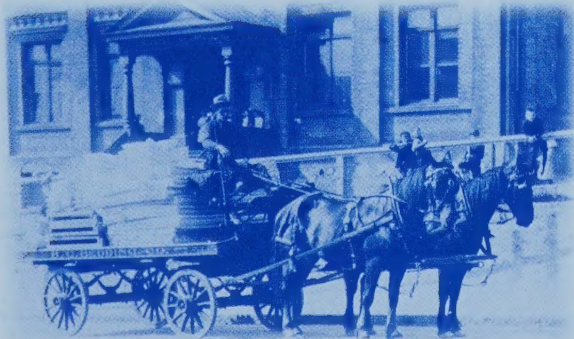
April 9, 1999



DONALD H. DRENNAN
1925 - 1999

Mr. Donald H. Drennan, former Chairman and CEO of Simmons Canada, passed away on Monday, February 22, 1999. Mr. Drennan had a long and illustrious career with the Simmons organization, spanning thirty years in England, France, Belgium and Canada. He retired as Chairman and CEO of our company in 1989. In the 1980's Mr. Drennan was responsible for setting our company on the road to market leadership.

Many of us were touched and significantly influenced by him and will remember him fondly.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion should be read in conjunction with the Consolidated Financial Statements presented herein. These statements report the results of SCI Income Trust (the "Trust") for the year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997 ("the short period of 1997"). The results for the Trust are dependent entirely on the operations of Simmons Canada Inc. ("Simmons"). The Trust acquired Simmons on October 16, 1997. Operating results for the Trust are effectively those of Simmons for the year ended December 31, 1998 and the short period of 1997.

Revenue, Net Income and Distributable Cash Flow

Revenue for the year ended December 31, 1998 was \$104,803,000 compared to \$18,591,000 for the short period of 1997. Net income of the Trust for the same periods was \$9,714,000 and \$1,297,000, respectively. Distributable cash flow for the year ended December 31, 1998 was \$12,972,000 or \$1.69 per unit compared to \$1,943,000 or \$0.25 per unit for the short period of 1997.

Gross profit for 1998 was 33% compared to 29% for the short period of 1997. These results indicated stronger improvement than would be apparent if the results for the two periods were comparable. The short period of 1997 reflected results only for part of the last quarter of 1997. Typically, the fourth quarter results are less than the average over any given year.

Selling, general and administrative expenses for 1998 included the distributable cash flow incentive of \$738,000. This amount is payable to management under the terms of employment agreements for achieving distributable cash flow in excess of \$1.20 per unit. No similar incentive was paid for the short period of 1997.

Subsequent to the announcement of the results contained herein and the distributions to unitholders described in the notes to the Consolidated Financial Statements, the Trust announced a further distribution of \$0.20 per unit payable on April 15, 1999 to unitholders of record on March 31, 1999, bringing total distributions based on

1998 results of operations to \$1.50 per unit. Distributable cash flow for 1998 was \$1.69 per unit. The difference between distributable cash flow and total distributions to unitholders has been held for the future capital needs of Simmons, as determined by management and the board of directors.

Capital Expenditure Related Payments

Distributable cash flow of \$1.69 per unit for 1998 was determined after the deduction of \$1,075,000 for capital expenditure related payments. Of this amount \$207,000 related to principal lease payments on a new computer system, a project initiated at the beginning of 1997. Full testing and implementation of this installation will be completed by mid-1999. In addition to expanding the ability to service customers, the new system will also enable Simmons Canada to meet specific Year 2000 requirements as well as internal management needs over the next several years.

Year 2000 Issues

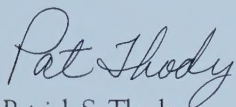
The new computer hardware and software currently being installed, which will be fully tested and implemented by mid-1999, is warranted Year 2000 compliant. In addition to this capital project, the Company, through a special task force of key personnel, has been reviewing all machinery and equipment used in the operations of each facility to ensure similar compliance. This task force has also been working with the Company's customers and suppliers on the changes required to mutual operations to meet the needs of the Year 2000 "challenge". While the Company's major customers and key suppliers are fully aware of, and are working on, this challenge, there is a risk that some customers or suppliers will not be ready.

Aside from the computer installation cost described under Capital Expenditure Related Payments above and a similar lease based expenditure over the next five years, the cost of Year 2000 compliance for all other areas is minimal and expected to be fully funded with on-going cash flows.

MANAGEMENT'S REPORT TO THE UNITHOLDERS OF SCI INCOME TRUST

Management of Simmons Canada Inc., as administrator of SCI Income Trust, is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and other information in the annual report. The consolidated financial statements have been prepared using generally accepted accounting principles in Canada including, where applicable, amounts based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Simmons Canada Inc. maintains a system of internal controls designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial information is presented on a timely basis, is relevant and reliable.



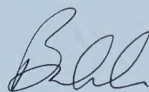
Patrick S. Thody

President and Chief Executive Officer, Simmons Canada Inc.

The board of directors of Simmons Canada Inc. is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The board of directors carries out its responsibility principally through its audit committee.

The audit committee, consisting of non-management directors, is appointed by the board of directors. The audit committee has reviewed the consolidated financial statements with management and the auditors and has recommended their approval by the board of directors.

KPMG LLP, an independent firm of Chartered Accountants appointed by the board of directors, has examined the consolidated financial statements in accordance with generally accepted auditing standards and its report is included herein. KPMG LLP have full and free access to the audit committee.



Brian M. Anderson

Senior Vice-President and Chief Financial Officer, Simmons Canada Inc.

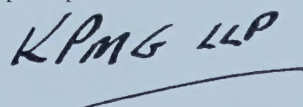
AUDITORS' REPORT TO THE UNITHOLDERS OF SCI INCOME TRUST

We have audited the consolidated balance sheets of SCI Income Trust (the "Trust") as at December 31, 1998 and 1997 and the consolidated statements of income, unitholders' equity, distributable cash flow and changes in financial position for the year ended December 31, 1998 and for the period from August 22, 1997 to December 31, 1997. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the year ended December 31, 1998 and for the period from August 22, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 16, 1999

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997

(In thousands of dollars)

	1998	1997
Assets		
Current assets:		
Cash and short-term investments	\$ 6,900	\$ 4,465
Accounts receivable (note 3)	14,758	13,279
Inventories (note 4)	5,507	5,327
Prepaid expenses	1,824	1,579
	28,989	24,650
Long-term accounts receivable (note 3)	1,014	696
Property, plant and equipment (note 5)	14,266	13,466
Deferred finance charges	2,445	2,510
Goodwill	42,657	43,757
	\$ 89,371	\$ 85,079
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,193	\$ 10,797
Income taxes payable	330	38
Distributions payable to unitholders (note 8)	3,062	1,914
	14,585	12,749
Capital lease obligations (note 10)	1,864	860
Future income taxes (note 7)	2,093	405
Unitholders' equity	70,829	71,065
Commitments (note 10)		
	\$ 89,371	\$ 85,079

See accompanying notes to consolidated financial statements.

Approved on behalf of SCI Income Trust by its attorney,
Simmons Canada Inc:

Pat Thody

Patrick S. Thody
President, Chief Executive Officer
and Director
Simmons Canada Inc.

Brian M. Anderson

Brian M. Anderson
Senior Vice-President, Chief Financial Officer
and Director
Simmons Canada Inc.

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997

(In thousands of dollars)

	1998	1997
Revenue	\$ 104,803	\$ 18,591
Cost of products sold	70,257	13,158
	34,546	5,433
Expenses:		
Selling, general and administrative	19,472	3,191
Interest	47	—
Interest on capital leases	139	27
Amortization of:		
Plant and equipment	1,460	238
Deferred finance charges	85	17
Goodwill	1,100	220
	22,303	3,693
Income before income taxes	12,243	1,740
Income taxes:		
Current	841	38
Future	1,688	405
	2,529	443
Net income	\$ 9,714	\$ 1,297

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997

(In thousands of dollars)

	1998	1997
Balance, beginning of period	\$ 71,065	\$ —
Net proceeds from issue of trust units (note 8)	—	71,682
Net income	9,714	1,297
Distributions to unitholders	(9,950)	(1,914)
Balance, end of period	\$ 70,829	\$ 71,065

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF DISTRIBUTABLE CASH FLOW

Year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997

(In thousands of dollars, except per unit information)

	1998	1997
Net income	\$ 9,714	\$ 1,297
Add back amounts not affecting distributable cash flow:		
Amortization of:		
Plant and equipment	1,460	238
Deferred finance charges	85	17
Goodwill	1,100	220
Future income taxes	1,688	405
Distributable cash flow before capital expenditure related payments	14,047	2,177
Capital expenditure related payments	1,075	234
Distributable cash flow	\$ 12,972	\$ 1,943
Distributable cash flow per unit	\$ 1.69	\$ 0.25

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997

(In thousands of dollars)

	1998	1997
Cash provided by (used for):		
Operating activities:		
Net income	\$ 9,714	\$ 1,297
Items not involving cash:		
Amortization of:		
Plant and equipment	1,460	238
Deferred finance charges	85	17
Goodwill	1,100	220
Future income taxes	1,688	405
Change in non-cash operating working capital	(567)	4,787
	13,480	6,964
Financing activities:		
Net proceeds from issue of trust units	—	71,682
Distributions to unitholders	(9,950)	(1,914)
Additions to capital leases	1,600	—
Repayment of capital leases	(415)	(65)
Additions to deferred finance charges	(20)	—
	(8,785)	69,703
Investing activities:		
Acquisition of Simmons Canada Inc.	—	(72,033)
Additions to property, plant and equipment, net	(2,260)	(169)
	(2,260)	(72,202)
Increase in cash and short-term investments	2,435	4,465
Cash and short-term investments, beginning of period	4,465	—
Cash and short-term investments, end of period	\$ 6,900	\$ 4,465

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1998 and the period from August 22, 1997 to December 31, 1997

(Tabular amounts in thousands of dollars)

SCI Income Trust (the "Trust") is an open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust as of August 22, 1997, as amended and restated on October 2, 1997. An unlimited number of trust units may be issued pursuant to the Declaration of Trust. The Trust qualifies as a mutual fund trust for the purposes of the Income Tax Act.

The Trust was created to invest in securities of SCI Acquisition Corporation which itself was created to acquire substantially all of the assets and certain liabilities of Simmons Canada Inc. ("Old Simmons"). The acquisition was effective on October 16, 1997 and contemporaneously with that acquisition SCI Acquisition Corporation changed its name to Simmons Canada Inc. ("Simmons"). These consolidated financial statements include the accounts of the Trust and the operations of Simmons from October 16, 1997.

Simmons operates within Canada in the manufacture and sale of mattresses, upholstery and furniture, which is its only line of business.

1. Significant accounting policies:

The consolidated financial statements of the Trust have been prepared in accordance with generally accepted accounting principles. The significant accounting policies are as follows:

(a) Basis of presentation:

The consolidated financial statements of the Trust include the accounts of Simmons. All inter entity transactions have been eliminated.

(b) Inventories:

Raw materials and spare parts are carried at the lower of cost and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost. Amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	1 to 15 years
Leasehold improvements	Over the life of the lease

(d) Deferred finance charges:

Deferred finance charges are costs incurred by Simmons for arranging and issuing, to the Trust, 12% unsecured subordinated notes (note 2). Deferred finance charges are amortized over the term of the notes, being 30 years.

(e) Goodwill:

Goodwill is recorded at cost less accumulated amortization. Goodwill, which represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed, is amortized on a straight-line basis over 40 years. The net carrying amount of goodwill would be written down if the value were permanently impaired. The Trust assesses impairment by determining whether the unamortized goodwill balance can be recovered through undiscounted future operating cash flows of the acquired operation over its remaining life.

(f) Foreign currency:

Monetary items denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when

1. Significant accounting policies (continued):

the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(g) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. Acquisition:

On October 16, 1997, Simmons acquired, at fair market value of \$69,069,000, substantially all of the assets and certain liabilities of Old Simmons in consideration of a demand promissory note (the "Demand Note") in the principal amount of \$40,182,000 and 12% unsecured subordinated notes in the principal amount of \$28,887,000. Effective the same day, the Trust, for cash of \$43,146,000, subscribed for 7,654,998 common shares of Simmons and 12% unsecured subordinated notes in the principal amount of \$21,113,000. Simmons incurred costs of \$2,527,000 in connection with issuing the common shares and 12% unsecured subordinated notes to the Trust.

In contemporaneous transactions:

(a) The Trust acquired the two outstanding common shares and \$28,887,000 principal amount of 12% unsecured subordinated notes of Simmons, as described above, held by Old Simmons, in consideration of the assignment of the receivables represented by the instalment receipts with a face value of \$30,620,000 and a discounted value of \$28,887,000, as described in note 8.

(b) Simmons repaid the Demand Note of \$40,182,000.

As a result of the above transactions, the Trust acquired 7,655,000 common shares of Simmons, which represent all of the outstanding common shares and \$50,000,000 principal amount of 12% unsecured subordinated notes (the "Notes") of Simmons.

The acquisition of Simmons by the Trust was accounted for using the purchase method of accounting.

The allocation of the purchase price to the assets and liabilities acquired was as follows:

Net assets acquired:	
Working capital	\$ 13,232
Property, plant and equipment	13,535
Deferred finance charges	2,527
Capital lease obligations	(1,238)
	28,056
Goodwill	43,977
Net assets acquired	\$ 72,033
Consideration:	
Cash	\$ 43,146
Assignment of instalment receipts	28,887
Consideration	\$ 72,033

The allocation of the purchase price discrepancy, representing the excess of the purchase price over the related book value of the net assets acquired of Old Simmons, in the amount of \$48,922,000 was \$455,000 to working capital, \$4,490,000 to property, plant and equipment and \$43,977,000 to goodwill.

3. Accounts receivable:

	1998	1997
Accounts receivable	\$ 16,102	\$ 14,154
Less:		
Allowance for doubtful accounts	330	179
Long-term accounts receivable	1,014	696
	\$ 14,758	\$ 13,279

Long-term accounts receivable are instalment payments due beyond 12 months under conditional sales agreements made with hotel property owners. These agreements are registered for security purposes in each province under the respective Personal Property Security Acts.

4. Inventories:

	1998	1997
Raw materials	\$ 2,983	\$ 2,835
Work-in-process	554	549
Finished goods	1,083	1,021
Spare parts	887	922
	\$ 5,507	\$ 5,327

5. Property, plant and equipment:

December 31, 1998			
	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 5,277	\$ 267	\$ 5,010
Machinery and equipment	6,950	1,086	5,864
Machinery and equipment under capital leases	3,273	311	2,962
Leasehold improvements	464	34	430
	\$ 15,964	\$ 1,698	\$ 14,266

December 31, 1997			
	Cost	Accumulated amortization	Net book value
Land and buildings	\$ 5,234	\$ 42	\$ 5,192
Machinery and equipment	6,381	174	6,207
Machinery and equipment under capital leases	1,649	16	1,633
Leasehold improvements	440	6	434
	\$ 13,704	\$ 238	\$ 13,466

6. Operating credit facility:

Simmons has a \$12.5 million operating credit facility with a major Canadian financial institution. No amount was drawn down on this operating credit facility as at December 31, 1998.

7. Income taxes:

The Trust is a taxable trust under the Income Tax Act. As such, the Trust is taxable on any income that is not distributed to the unitholders. The Trust intends to allocate all income, less administrative expenses, to the unitholders. No provision for income taxes relating to the Trust has been included in these financial statements. Provision for income taxes in Simmons is recorded at the applicable statutory rates. Simmons has adopted the new Section 3465 of The Canadian Institute of Chartered Accountants Handbook entitled "Income Taxes" effective for the period ended December 31, 1997.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	1998	1997
Canadian statutory tax rate	43.0%	43.0%
Income before income taxes	\$ 12,243	\$ 1,740
Computed income taxes	\$ 5,264	\$ 748
Increase (decrease) resulting from:		
Interest expense on Notes paid from		
Simmons to the Trust	(2,580)	(516)
Non-deductible expenses	207	93
Large Corporations Tax	124	38
Other	(486)	80
Income tax expense	\$ 2,529	\$ 443
Consisting of:		
Current	\$ 841	\$ 38
Future	1,688	405
	\$ 2,529	\$ 443

The components of future income taxes, which are the result of temporary differences between the carrying values and the tax values of assets and liabilities, are:

	1998	1997
Property, plant and equipment	\$ 682	\$ 50
Deferred finance charges	178	32
Goodwill	1,233	382
Other	—	(59)
	\$ 2,093	\$ 405

8. Trust units:

	Number of units	Amount
Authorized:		
Unlimited trust units		
Issued:		
Issue of initial trust unit on August 22, 1997	1	\$ —
Issued pursuant to underwriting agreement, net of discount	7,655,000	74,817
Less issue expenses	—	(3,135)
Cancellation of initial trust unit	(1)	—
	7,655,000	\$ 71,682

Pursuant to an underwriting agreement dated October 2, 1997, the Trust sold to certain underwriters 7,655,000 trust units at a price of \$10 per unit, payable on an instalment basis. The net proceeds of the issue were cash of \$42,795,000, net of underwriters fees and expenses of the issue of \$3,135,000 and receivables represented by instalment receipts of \$30,620,000 due on or before October 16, 1998. Immediately thereafter, the Trust assigned the receivables represented by the instalment receipts to Old Simmons at the discounted value of \$28,887,000 in consideration of two common shares and the \$28,887,000 principal amount of 12% unsecured subordinated notes of Simmons held by Old Simmons (note 2(a)).

Simmons distributes all of its available cash to the Trust after satisfaction of all obligations, including interest payments on \$50,000,000 principal amount of Notes and as considered advisable by its board of directors taking into consideration appropriate working capital and other requirements. The Trust makes quarterly distributions of its available cash, after expenses of the Trust, approximately 15 days after the end of each quarter.

Cash distributions are calculated and recorded on an accrual basis. The distributions for the year ended December 31, 1998 are as follows:

Declaration of quarterly cash distribution	Payment date	Amount per unit	Total
March 4, 1998	April 15, 1998	\$ 0.30	\$ 2,296
June 18, 1998	July 15, 1998	0.30	2,296
September 21, 1998	October 15, 1998	0.30	2,296
December 17, 1998	January 15, 1999	0.40	3,062
		\$ 1.30	\$ 9,950

The distribution for the period from August 22, 1997 to December 31, 1997 was as follows:

Declaration of quarterly cash distribution	Payment date	Amount per unit	Total
December 15, 1997	January 15, 1998	\$ 0.25	\$ 1,914

On May 21, 1998, the unitholders approved the Trust Unit Option Plan (the "Plan"). Under the Plan, options to acquire up to 765,500 trust units may be granted to directors, officers and employees at a price equal to the closing market value of the trust units on the preceding day. One third of the options granted may be exercised following each of the first, second and third anniversaries of the grant.

At December 31, 1998, certain senior officers of Simmons and directors of the Trust held options to purchase 153,000 trust units. These options can be exercised at an exercise price of \$9.50 per trust unit and can be exercised between November 16, 1999 and November 16, 2005. The exercise of these options would have no materially dilutive effect.

9. Pension plan:

Simmons administers a combined non-contributory defined benefit and defined contribution pension plan for substantially all of its full-time employees.

The value of pension fund assets and accrued pension benefits as at December 31 is as follows:

	1998	1997
Pension fund assets	\$ 18,079	\$ 17,625
Actuarial present value of accrued pension benefits	14,236	13,214
Surplus	\$ 3,843	\$ 4,411

10. Commitments:

Simmons leases various facilities and equipment. Future minimum payments, by fiscal year and in aggregate, under these non-cancellable leases are as follows:

(a) Capital leases:

Year ending December 31:	
1999	\$ 664
2000	664
2001	634
2002	463
2003	378
Total minimum lease payments	2,803
Amounts representing interest at rates between 7.8% and 8.5%	445
Present value of net minimum lease payments	2,358
Less amounts included in accounts payable and accrued liabilities	494
	\$ 1,864

(b) Operating leases:

Year ending December 31:	
1999	\$ 2,290
2000	1,861
2001	1,496
2002	1,392
2003	1,405
Thereafter	14,790
Total minimum lease payments	\$ 23,234

11. Financial instruments:

(a) Interest rate risk:

Simmons has exposure to interest rate risk as its operating credit facility (note 6) is subject to a floating interest rate based on the prime rate of a major Canadian financial institution plus 1/2%.

(b) Credit risk:

At December 31, 1998, Simmons' 4 major customers accounted for 40% of the outstanding accounts receivable balances and 48% of revenue.

11. Financial instruments (continued):

Credit risk is controlled by establishing and monitoring customers based on approved credit limits. Anticipated bad debts have been provided for in the allowance for doubtful accounts (note 3).

Simmons is also exposed to credit risk in the event of non-performance by its counterparty to the foreign exchange contracts (note 11(c)). Simmons' risk is mitigated by dealing with a counterparty that is a major Canadian financial institution.

(c) Foreign exchange risk:

Simmons enters into U.S. dollar future exchange contracts to manage its exposure to currency rate fluctuations. Simmons accounts for its U.S. dollar future exchange contracts on an off-balance sheet basis. The outstanding U.S. dollar exchange contracts are as follows:

Notional amount	U.S. \$ 6,220
Average contract rate to buy U.S. \$1.00	\$ 1.4857
Maturity dates	January 5, 1999 to October 25, 1999

(d) Fair values:

The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and distributions payable to unitholders approximate fair values due to the short-term maturities of these instruments.

The carrying value of long-term accounts receivable approximates the fair value.

The fair value of capital lease obligations is estimated using discounted cash flow analysis based on Simmons' current incremental borrowing rates for similar types of arrangements. The carrying value of capital lease obligations approximates the fair value.

The fair value of the outstanding U.S. dollar exchange contracts is estimated as the amount of any gains or losses that would result if settlement were to take place at the balance sheet date.

Carrying value	\$ -
Fair value	245

12. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Trust or Simmons, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. Comparative amounts:

Certain comparative amounts have been reclassified to conform to the current year's presentation.

CORPORATE DIRECTORY

Directors of Simmons Canada Inc.

Brian M. Anderson

John B. Newman ⁽¹⁾⁽²⁾⁽³⁾

Randall G. Provost ⁽¹⁾⁽²⁾⁽³⁾

E. Duff Scott ⁽¹⁾⁽²⁾⁽³⁾

Patrick S. Thody ⁽²⁾

(1) Member of Audit Committee

(2) Member of Compensation Committee

(3) Member of Corporate Governance Committee

Senior Officers of Simmons Canada Inc.

Patrick S. Thody

President and Chief Executive Officer

Brian M. Anderson

Senior Vice-President

and Chief Financial Officer

R. Edward (Ted) Jackson

Executive Vice-President

Terence H. Pace

Vice-President - Manufacturing and Engineering

David C. Puttock

Vice-President - Human Resources

Ronald W. Dennis

Vice-President - Marketing

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Toronto Stock Exchange

Trust Unit Symbol

"SMN.UN"

Trustee, Registrar and Transfer Agent

Montreal Trust Company of Canada

151 Front Street West, Toronto, Ontario

Unitholder Enquiries

Brian M. Anderson

Telephone: 905-671-1033

General Counsel

Davies, Ward & Beck, Toronto, Ontario

Auditor

KPMG LLP, Toronto, Ontario

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Calgary, Alberta

121 Gomez Street

Winnipeg, Manitoba

15 Bramalea Road

Brampton, Ontario

17400 TransCanada Highway

Kirkland, Quebec

Distribution Centre

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Regina, Saskatchewan

Showroom

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Mississauga, Ontario

